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American Federation of Government Employees, AFL-CIO
Public Hearing Held June 11, 2001

This public hearing is to solicit views on what policies and principles should govern the contracting out of federal functions. Let me begin by saying we should not follow the prior Administration's policy which was to contract out to eliminate federal jobs regardless of the cost to the taxpayer, *losing* control over the policy of its own programs to the detriment of the beneficiaries of HUD programs. The union is concerned, given reports in the newspapers, that OMB is foisting on agencies, through goals as to the amount of activity to be contracted out, the same wasteful and failed strategy. My own agency is a clear example.

COST

My agency has entered into well over a **billion** dollars of contracts - more than the entire salary and expense costs for the Department - without a single cost benefit analysis. There is already significant documentation that two *of these* contracts *alone* are wasting almost \$300 million in taxpayer funds. ***Back in 2000***, Two local unions did analyses on **two large contracts** (§8 Administration and Managing and Marketing [M&M] of HUD's single family inventory) demonstrating a **\$279 million dollar annual savings**, taking into account all increase salary costs to hire additional workers. These costs do not include waste, fraud, mismanagement, and picking up after defaulting contractors. The savings on one of the contracts was validated, and the amount increased, by HUD's own Inspector General. OIG Report dated 9/29/00, Number 00-AT-123-0001.

Think of the thousands of people who could be assisted with this money that HUD is just throwing away, and this is on just two contracts! Think that these savings could be used to shore up social security, pay

for prescription drugs, provide more decent living conditions for the thousands stuck on waiting lists for decent housing or homeless, all without reducing a single benefit provided today!

Agencies have bitterly fought A-76 as too time consuming and expensive. Therefore, like with my agency, they have applied no test at all. Managers need to manage, which includes the most effective way to accomplish the task. They need to be trained on how to weigh the variables and evaluate the process. It should be a simple test so that it can be applied at all levels of the agency where contracting may occur. I recommend the number of employees times salary plus additional if any overhead space and equipment. If agencies cannot manage this, they have no business entering into multimillion-dollar contracts on behalf of the taxpayer.

While invoking the private sector as the model of efficiency, no one has bothered to test the accuracy of the assumption. Instead, agencies have acted in ways the private sector never could and survive - ignored the cost. After touting the returns to the Agency in the form of increased sales proceeds under the M&M contract, the GAO in a recent report (GAO-01-248, Issued 1/01) stated that the return from the contractors with respect to sales price alone was only half of one percent higher than that done by the workers. *The contractor barely out-produced HUD staff despite the fact that we were understaffed and sales were frozen while the Department reorganized. Furthermore, the Department has been scandal plagued by the failures of these same contractors to board and secure buildings having a negative impact on communities, having properties routinely vandalized, and the endless configurations of flipping scandals around the country.*

The taxpayers should be outraged - HUD employees are.

OTHER CONSIDERATIONS

Another area where policy needs to be established is assessing the capacity of the contractor to provide the services and how many other contract entities can pick up the slack. HUD being in the mortgage business, people assume there are an infinite number of contractors who can do the various aspects of the mortgage lending business HUD does. Problem - there is not a surplus of capacity over what mortgagees *currently* do to take on the additional work done by HUD employees in furtherance of our mission. When we contract out, we have to service all areas of the country. The private sector can choose its markets. But if you want to bid on a contract, there is considerable pressure to take on more than you can handle (in addition to occasional failures on the part of management to estimate workload). When these contractors go belly up or can't perform, there are often no options as to who will do the work. And in those few instances where there are, we are held hostage in terms of costs.

In order not to be held hostage, agencies need to develop contracting strategies that are local not global, as well as plan staffing needs for where the private sector (or the housing authorities *and other quasi-governmental agencies* in the §8 Administration contract) are incapable or unwilling to operate.

Our union has been fighting this battle for years and still does not understand why a common sense approach which protects the taxpayer is so hard to achieve.